



Janice K. Brewer
Governor

**GOVERNOR'S OFFICE OF
STRATEGIC PLANNING AND BUDGETING**
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Eileen I. Klein
Director

September 18, 2009

Dear Agency Director:

Addressing the deficit remains one of the most important issues facing Arizona. To date, the State faces an ongoing deficit of at least \$500 million from fiscal year 2009. In addition, a budget gap of approximately \$400 million remains to be resolved for fiscal year 2010. Combined with anticipated continued growth in caseloads for health and human services, as well as the need for other mid-year budget adjustments, the state faces an operating deficit of at least \$1 billion for the current fiscal year.

While the state budget has been fundamentally unbalanced for several years, this deficit is not merely an issue on paper. The state now faces significant shortfalls in cash flow, as sufficient revenue is not readily available to meet obligations. OSPB has been working with ADOA and the State Treasurer's office to ensure adequate liquidity is maintained and resources are made available so that all authorized payments and payroll can be issued timely.

However, the severity of our fiscal situation has not escaped the notice of the financial markets. As of last week, two major credit rating agencies have now revised downward the State's rating outlook. While credit ratings themselves have not yet been impacted, it is clear that without a comprehensive solution to address the deficit, the State risks paying higher interest rates in the future. This is not only an issue for outstanding debt but for future issuances such as those authorized in the current budget.

Clearly, additional action must be taken to avoid continued financial deterioration. Governor Brewer remains steadfast in her call for a comprehensive deficit solution that minimizes one-time fixes and includes sustainable revenues to account for the state's operational needs. She has applauded those policymakers with the courage and foresight to include revenues as a budget solution. However, the unwillingness of the Legislature as a whole to provide a long-term revenue solution to date necessitates the call for mid-year reductions in expenditures. While it is still possible for the Legislature to provide for needed additional revenues directly or by referring a measure to the ballot, you as directors cannot count on that relief.

Accordingly, at last week's Cabinet meeting, Governor Brewer called upon you to begin preparing for additional reductions for FY 2010. Every agency is being asked to meet a reduction target of 15 percent of the agency's FY 2010 budget.

To that end, please find attached a set of instructions intended to guide you in preparing those reductions. We do not expect that you will be able to reach this target by enacting across-the-board reductions, especially in light of reductions made to date. This request will require you as the organizational leader to assess what functions you simply can no longer afford to perform.

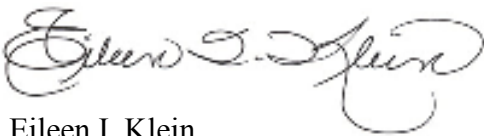
As difficult as this task is, it also affords us the opportunity to think about how to refocus our organizations, maximize their capacity and restructure our resources in the spirit of reform.

In doing so, you should prioritize services based on what is most essential and what the voters or courts have mandated be offered. Rest assured, we will ask the Legislature to relieve agencies of any statutory obligations that are not absolutely essential to fulfilling your missions or mandates.

We recognize how tough these decisions will be. But if we are to ensure the long-term viability of the state, we must restore fiscal order and adjust our operational capacity to a sustainable level.

Thank you for your cooperation and for your strength in leadership during these challenging times.

Yours in service to the great State of Arizona,

A handwritten signature in dark ink, appearing to read "Eileen I. Klein", written in a cursive style.

Eileen I. Klein
Deputy Chief of Staff, Finance
Director, Office of Strategic Planning and Budgeting